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ABSTRACT

One of a series of units on business issues designed for secondary school students, this packet focuses on the farmers' cooperative corporation, a particular type of business organization created to increase farmers' control of the production and marketing of their goods. Two separate sections consist of a teacher's guide and student materials. The teacher's guide contains an overview of objectives and activities, an activity to pre-assess students' knowledge of the business concepts basic to this unit, five daily lesson plans, teacher background information, student handouts, and recommendations for using business people as classroom resources. The student materials section contains eight activities that treat the organization, functions, and economic role of farmers' cooperatives. Students examine three case histories: a Kansas wheat farmer in the 1890's, the development of the Sunkist cooperative, and new farmworker cooperatives in Salinas, California. Readings outline the history of the farm problem and compare the cooperative to other types of businesses. Two problem-solving exercises involve students with the issues of overproduction and monopoly. A vocabulary worksheet reviewing terms and ideas presented in the unit concludes the activities. (LP)

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AMERICAN FARM COOPERATIVES: PAST AND PRESENT

Instructor's Guide

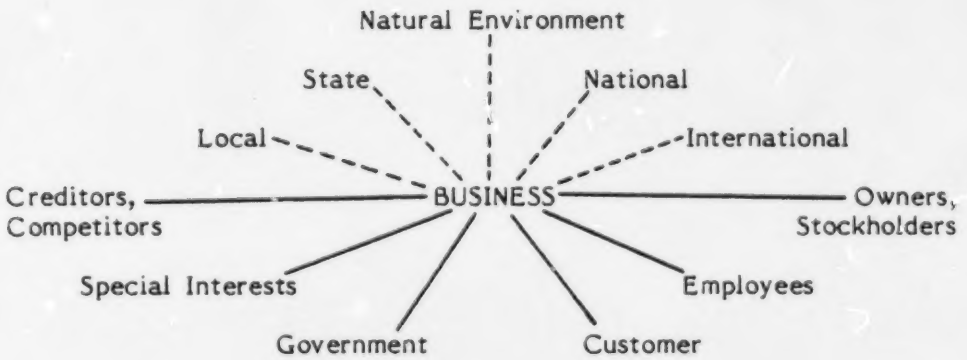
Author: Phyllis Maxey
Business Issues in the Classroom
Constitutional Rights Foundation
Los Angeles, California
Revised, 1983

SP 015 380

AMERICAN FARM COOPERATIVES: PAST AND PRESENT

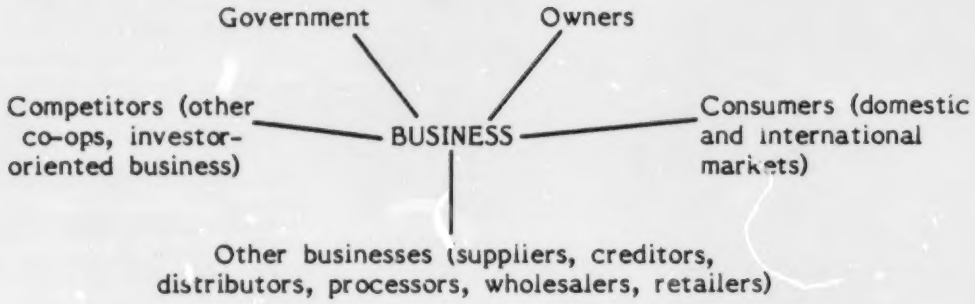
OVERVIEW

Business Issues in the Classroom (BIC) introduces students to exciting, difficult, and complex decisions that face the business community today. Case studies and activities help students understand the setting in which American companies must function. This business environment includes many groups with conflicting interests: stockholders, consumers, employees, special interest groups, business competitors and creditors, and government. These groups affect business and, in turn, are affected by business decisions. Each BIC lesson plan focuses on a specific issue which highlights a particular relationship in the business decision-making environment.



THE BUSINESS DECISION-MAKING ENVIRONMENT

This unit introduces students to a particular type of business organization, the cooperative corporation. Throughout American history farmers have joined economic and political organizations in an effort to strengthen thier position in the marketplace. As producers of food products, farmers are linked to a network of suppliers, distributors, wholesalers, processors, and retailers in order to move crops from field to consumer. Cooperatives were created to give farmers more control of the production and marketing functions.



THE BUSINESS COOPERATIVE ENVIRONMENT

Learning activities include three case studies: (1) a Kansas wheat farmer in the 1890s, (2) the history of the Sunkist cooperative, and (3) new cooperatives of farmworkers in Salinas, California. Readings provide background information on the history of the farm problem as well as a comparison of the cooperative to other types of businesses. Two problem solving exercises give students the opportunity to wrestle with the problem of overproduction and the problem of monopoly. A vocabulary worksheet helps students review the terms and ideas presented in the unit.

OBJECTIVES

Students will be able to:

1. describe a cooperative corporation in terms of its goals and organization.
2. give examples of different types of cooperatives.
3. identify the conditions in the 1880s and 1890s that encouraged farmers to form cooperatives.
4. list the factors that have caused cooperatives to succeed or fail.

TIME FRAME

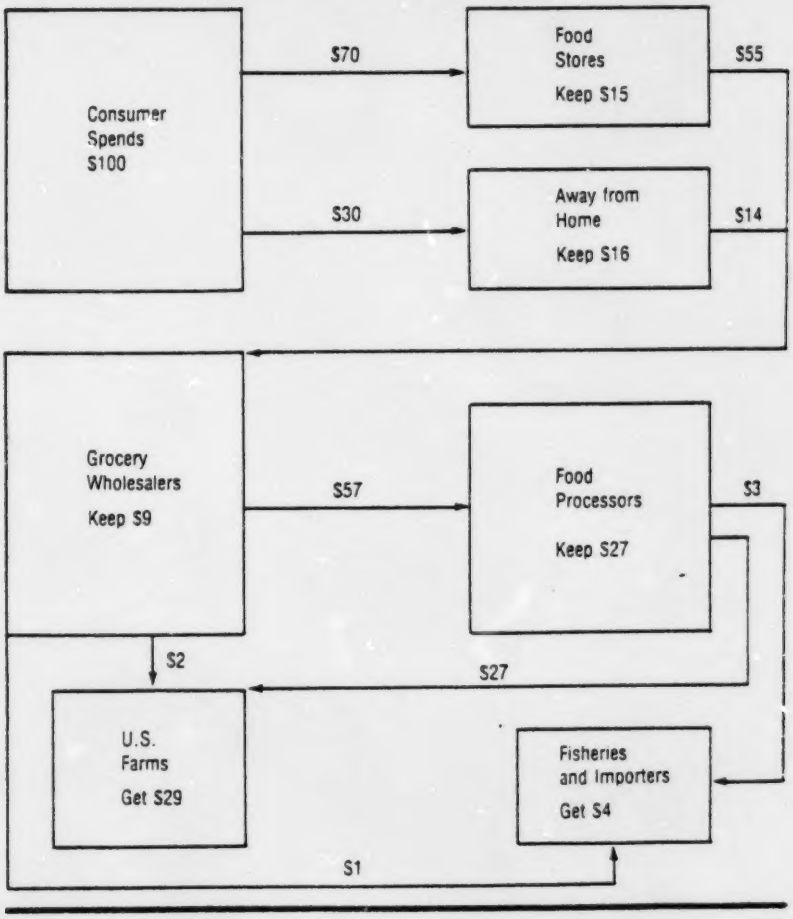
5 class periods, 4-5 hours of homework

CLASSROOM APPLICATIONS

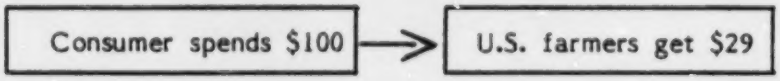
Preassessment

This unit assumes that students have a working knowledge of the concepts presented in the introductory Business Issues in the Classroom (BIC) unit, The Business Environment, in particular the marketing function in business. To assess students' understanding of the business operations necessary to get food from the farm to the consumer's table, you might use the following diagram from the U.S. Department of Agriculture 1981 Yearbook:

What Happened to $100 of Consumer Food Spending



On the chalkboard, draw two squares from this chart:



Ask the students what happened to the other $71. Students should identify the functions performed by retailers, wholesalers, and processors, the "middlemen" in the food industry. The following definitions may clarify these terms:

Definitions

marketing: all business activities related to the buying and selling of goods, including transportation, storage, advertising, and retailing functions

retailer: a business that sells goods to the general public, such as supermarkets, clothing stores, gas stations, restaurants

wholesaler: a business that buys large quantities of products from farmers and food processors, and then sells smaller amounts to many retailers

food processor: a business that transforms raw materials into consumer products. Wheat goes to a flour mill and a bakery before it becomes bread on the consumer's table or the supermarket shelf. The mill and bakery are processors.

In the chart of $100 of consumer food spending, $30 goes to "away from home spending." Restaurants, fast food places, meals on airplanes -- these account for about one-fourth of all food purchases. The trend toward eating out and using highly-processed convenience foods has created new markets for farm products. Americans today eat and drink 1,500 pounds per person annually, the same as 50 years ago. Farmers and processors can not expand their markets by getting Americans to eat more, but consumers may spend more for convenience items, for quality, or for novelty. Farmers can benefit from such consumer preferences as well as from increased sales in international markets.

Day 1 Reading and Discussion: Either individually or as a group, read the first case study, "1894 in Kansas," p. 2-3. Use the disucussion questions on p. 3 to explore the problems facing Kansas farmers at the time. The reading, "1890s: Boom, Crash, Boom," p. 4-7, explains the bigger picture which made life so difficult for farmers. Assign the reading and the review questions on p. 7 for homework.

Day 2 Activity: Distribute copies of the problem solving activity, "Overproduction," p. 8. Divide the class into small groups and have them work on the answers to the questions that follow the problem statement. After 30 minutes, bring the class together for a large group discussion, reviewing their answers. This activity draws heavily on the previous reading. If students experience difficulty with the problem, you could review the reading review questions and then return to the problem situation. Assign the Case Study, "Sunkist Growers," p. 9-14, for homework.

Day 3 Discussion: Review the history of the Sunkist Growers' co-op using the discussion questions on p. 14. Students should be able to explain the drawbacks of a cooperative from the farmers' viewpoint, as well as the cooperatives' attractions. Students should read "Cooperatives and the Law," p. 15-17, for homework.

Day 4 Small Group Discussion: Distribute copies of the Problem Solving activity, "Big Business Cooperative," p. 18. Divide the class into small groups and ask each group to discuss the questions that follow the problem. After 30 minutes, bring the groups together and review the problem situation as a class. Issue: Does a national citrus growers cooperative with control of marketing and processing functions constitute an unfair monopoly in the citrus industry?

Day 5 Discuss the chart on p. 15-16 which distinguishes cooperatives from other types of business organization. Use the Reading Review questions, p. 17, to discuss the reading selection.

The last case study, "Cooperativa Socios Unidos," p. 19-20, may be used for class discussion of a production cooperative, or as the basis of an essay examination. Students might compare this new cooperative to the early days of Sunkist, noting its differences and similarities.

The Vocabulary Worksheet on p. 21 will help you assess students' understanding of the terms and ideas presented in this lesson.

FOLLOW-UP: Students can pursue the ideas presented in this lesson through the following projects:

1. Investigate cooperatives in the local community — day care, credit unions, farm co-ops, stores, etc.
2. Study the American farmer during other periods in American history — the 1930s, the 1950s, etc.
3. Draw a map highlighting the main crops in various regions of the U. S.
4. Research investor-oriented corporate farms, and write a case study on one of these farms.
5. Research government policy toward farmers since 1929, and draw a chart showing changes in policy.
6. Study farm labor, especially the migrant workers who pick fruit and vegetable crops.

USING A RESOURCE PERSON IN THE CLASSROOM

The Business Issues in the Classroom Program has a talented group of business professionals who are prepared to teach one day of this unit. At least two weeks in advance, call the Constitutional Rights Foundation at (213) 473-5091 and ask the BIC placement coordinator to arrange a visit.

The business resource person could participate in the following ways:

Day 1: Present introductory material on the production and marketing functions in the U. S. food industry. (See Preassessment section under Classroom Applications)

Days 2, 4: Lead a discussion of the problem-solving activities, "Overproduction" or "Big Business (Mega-Fruit) Cooperatives."

Day 3: Discuss the Sunkist case study.

THE 1890s: BOOM, CRASH, BOOM, Answers to Reading Review Questions, p. 7

1. In the 1870s the U. S. population could absorb farm production, but by the 1880s farms were producing much more than the population could consume. International sales were down. In the 1870s the Great Plains were just being settled by farmers and there was a rush of Eastern capital from investors anxious to cash in on the profits in this new region. By the 1890s, farmers like Frank O'Hara were faced with overproduction, low prices, and no more capital from the East.
2. Wheat prices began to rise in the 1900s because supply was more in balance with demand. International sales absorbed about one-fourth of U. S. production. Discoveries of gold increased the money supply, making it easier for farmers to obtain loans. The nation had recovered from the 1893 panic and depression.
3. In 1895, 15 counties in Kansas had more than 75% of their land owned by loan companies rather than the original farmers. Between 1889 and 1893, 11,122 farm mortgages were foreclosed.
4. The Granger movement was a protest movement by farmers against the railroads, grain elevators, and bankers who were blamed for the farm problem. The Grange encouraged the formation of cooperatives, government regulation of the railroads and elevators, and education for farm families. At its height in 1874, the Grange had 800,000 members.
5. Cooperatives are member-owned businesses in which each member has a vote. Farmers formed cooperatives to try to improve their position in the marketplace. One way they tried to do that was by eliminating the "middlemen." The farmers tried to run their own grain elevators and supply stores. Many failed because of poor management.
6. The farmers wanted the government to expand the money supply so that there was more available for loans. The farmers' existing loans could be repaid if the money supply were inflated — the dollar would be worth less than it was when the loan was made.
7. Accomplishments: (1) farmers learned respect for the distribution function of the "middlemen," (2) farmers learned management skills in the cooperatives, and (3) farmers suceeded in getting legislation passed in their

interests, including the regulation of railroads and grain elevators.

8. The "middlemen" are the processors, distributors, wholesalers, and retailers who package, transform raw materials, transport them and get them to the consumers. They are important because consumers do not eat raw wheat or a railroad car of oranges. The marketing function transforms a crop into the products consumers want.

OVERPRODUCTION, Answers to Problem Solving Activity, p. 8

A. An individual farmer could try to cut costs, and wait it out until competition eliminated the less efficient.

The federal govenment would be the only group with the power to provide price supports, subsidies and controls that affect an entire industry. The government also has the power to inflate the money supply.

A farmer's cooperative could try to increase consumer demand, as the orange growers did when they changed the perception of oranges as luxury items to an everyday food. A cooperative could supply the farmer with oil, seed, fertilizer, and any other supplies for less than most farmers would pay at the local store, thus a cooperative could reduce the costs of production.

B. Farmers wanted subsidies such as low cost loans, but in the 1880s that was unheard of. "People support the Government, the Government should not support the people." (Grover Cleveland) There were, however, large land grants given to the railroads, as well as aid to manufacturers through tariffs. The farmers' turn for government subsidies would come in the future.

Farmers also favored inflating the money supply and cutting costs. They had no power to increase demand or decrease supply. If one farmer

reduced output, he or she would just lose income while someone else produced more.

Farmers would of course reject the solution of allowing competition to eliminate the inefficient. Most farm families raised enough food to survive on their land despite losses. The farm was not only a business, it was also a home.

C. In the 1900s the international market for American farm goods expanded, thus relieving some of the overproduction problems. Some of the marginal farming areas were abandoned, reducing supply. The nation was recovering from the depression of 1893. The money supply was expanded. Costs were reduced as farmers became more successful at marketing. Railroads were brought under government regulation.

COOPERATIVES AND THE LAW, Answers to Reading Review, p. 17

1. A cooperative is a business organization owned by its members and operated to serve their interests. They operate at cost, and return any revenue in excess of costs to members.
2. An investor-oriented corporation is owned by stockholders who want a return on their investment. The customers of the corporation are different from the owners and the customers have no say in the operation of the corporation. Profits made by the corporation are used to expand the business and/or issued stockholders as yearly dividends.
3. Supply, marketing, production, manufacturing, banking.
4. The Capper-Volstead Act of 1922 authorizes farmers to collectively process and market their products through a member-controlled cooperative. The Secretary of Agriculture can intervene if there is reason to believe that a cooperative has monopolized trade in violation of the antitrust laws.

VOCABULARY WORKSHEET, p. 21

1. DISTRIBUTION	2. PROCESSING	3. CITRUS
4. MARKETING ORDERS	5. MONOPOLY	6. STOCKHOLDERS
7. THE GRANGE	8. COOPERATIVES	9. MARKETING

A. A business cooperative is organized to serve its members by offering needed services such as agricultural supplies, marketing, and research. Each member has a vote and receives a patronage refund after the cooperative has paid all costs of doing business.

B. Business cooperatives often succeed because of good management, experienced leaders, committed members who use the co-op's services. Co-ops can fail because of poor management, overextension of credit, poor returns to the members, low quality supplies or poor service, or lack of group cohesion.

BACKGROUND INFORMATION

Teachers may wish to consult the following references which were used in preparing this unit:

Edward Ainsworth, Journey with the Sun, Sunkist Growers.

Gilbert C. Fite, Farm to Factory: A History of the Consumers Cooperative Association, Columbus, MO.: University of Missouri Press, 1965.

Ray A. Goldberg, Agribusiness Coordination, Boston: Harvard University Press, 1968.

Oscar and Mary F. Handlin, The Wealth of the American People, New York: McGraw Hill, 1975.

Richard B. Heflebower, Cooperatives and Mutuals in the Marketing System, Madison WI.: University of Wisconsin Press, 1980.

Donald Kemmerer & Clyde Jones, American Economic History, New York: McGraw Hill, 1959.

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S. Ratner, J. H. Solton, R. Sylla, The Evolution of the American Economy, New York: Basic Books, 1979.

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U. S. Department of Agriculture, Washington D.C.: Yearbook of Agriculture, 1954, 1981, 1982.

_____, Cooperative Benefits and Limitations (1980)

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_____, Cooperatives in Agribusiness (1981)

_____, The Sunkist Adventure (May 1975)

National Council of Farmer Cooperatives, Protecting Your Food Supply, 1800 Massachusetts Ave., N.W. Washington, D.C. 20036.

Jerry Voorhis, Cooperative Enterprise: The Little People's Chance in a World of Bigness, Danville, IL: Interstate Printers and Publishers, 1975.

AMERICAN FARM COOPERATIVES: PAST AND PRESENT

Student Materials

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AMERICAN FARM COOPERATIVES: PAST AND PRESENT

Have you ever bought Welch's grape juice, Land O' Lakes butter, Tree Top apple juice, Sunkist oranges, Blue Diamond almonds, Sun-maid raisins? These are some of the products marketed by the 5000 farm cooperatives in the United States. When some people hear the word "cooperative," visions of communes and bean sprouts come to mind. A cooperative is not a commune, although its members do organize collectively to achieve their goals.

Business cooperatives are owned by the users of the co-op. Membership is voluntary and each member has a vote. The co-op does not make profits for itself. Its business is to produce low-cost services and thus higher incomes for its members. You may be familiar with cooperatives in your community such as food stores, child care co-ops, credit unions, and health associations.

Most business corporations try to make a profit for one group of people, their owners, by selling products to another group of people, their customers. In a cooperative corporation, the owners and customers are the same people. A cooperative that supplies farmers with seed and fertilizer, is owned by those farmers and its services are used by the same farmers.

Cooperatives have made important contributions in America's economic history. In this unit we will examine several historical cases: a Kansas wheat farmer in the 1890s, the Granger protest movement, the growth of the Sunkist cooperative, and the recent formation of cooperatives by California farmworkers. The cases, background readings, and activities will provide you with an understanding of the purposes and operation of these business organizations. The unit includes the following:

1. CASE STUDY: 1894 in Kansas
2. READING: The 1890s: Boom, Crash, Boom
3. PROBLEM SOLVING: Overproduction
4. CASE STUDY: Sunkist Growers
5. READING: Cooperatives and the Law
6. PROBLEM SOLVING: Big Business Cooperative
7. CASE STUDY: Cooperativa Socios Unidos
8. VOCABULARY WORKSHEET

1894 in KANSAS

Frank O'Hara stood on the front porch of his farm house, staring at acres and acres of wheat. He had come to Abilene, Kansas twenty years ago as a boy. In the 1870s his father had sold their farm in Ohio and moved the family to the "great American West -- land of opportunity." They had survived the harsh winters, hot summer winds, tornadoes, and hordes of grasshoppers that covered everything in sight. Banks were begging people to borrow money at that time. His father took out several loans and added parcels of land until the fields now stretched in all directions.

"So much for the good times," thought Frank. "We could actually lose this place or half starve to death trying to hold onto it." There had been two years of drought in Kansas and Nebraska. Without rain, the crops would burn up in the fields. When Frank did have wheat to sell, the price was so low he didn't make enough money to cover expenses. Right now he desperately needed money to pay the mortgage and to repay the loan he took out on some new equipment.

"When Father ran into hard times, we all just worked harder. The next year everything was all right. We could always sell our wheat," Frank thought to himself. "Now when I get a crop, so does everyone else. There's too much wheat, nobody whats to buy it for a decent price."

Frank's neighbor, Joe Watkins, came by with news of today's wheat prices. "Just been down to the elevator. They're offering 50¢ a bushel. I've got bankers breathing down my neck, threatening to take my farm if I can't make my loan payments. The only people with money are those crooked bankers, the railroads, and grain elevator companies," said Joe bitterly.

"You know, my father used to get $2 a bushel for our wheat. What has happened?" asked Frank.

"There's no money. Those eastern bankers control the whole nation's money supply. They turn it on and off to suit their advantage. The railroads set higher rates for us small farmers than for their big customers. We have no choice but to use the railroad. We can't ship our grain by horse and wagon. The government should take over those railroads and give us some help," said Joe.

"I don't know what to do. Next year I may lose part of my land because I can't make the mortgage payments," said Frank. Joe answered, "I'll tell you what I'm thinking. I may pack up the family and head west. Let the bank have my land and pay the taxes."

"West? There's not much land good for farming out there anymore."

"I wasn't thinking of farming." said Joe. I could get a job in a factory. They make better money than we do and work less."

"That's not for me," replied Frank. "I'm not going to give up this land. My wife and I have worked too hard. I want my children to have this land. I want my wife and me to grow old and die right here under the blue Kansas sky. It's got to get better. We can raise enough to feed ourselves. If I could just get a loan until those wheat prices go up, I wouldn't lose any of my land. I guess I'm going to gamble, Joe. I going to hope things change before I lose everything."

Discussion Questions

1. What would you do if you were Frank O'Hara?
2. Who do these farmers blame for their troubles?
3. What economic functions do the grain elevators, railroads, flour mills, and bakeries perform in handling the farmers' wheat?
4. Can you think of some explanations for wheat price dropping from $2 a bushel to 50¢ a bushel?
5. What could Frank do to improve his situation?

The 1890s: BOOM, CRASH, BOOM

Frank O'Hara, a Kansas wheat farmer, was struggling in 1894. He would have to struggle six more years before his situation would improve. From then until 1915, everything was uphill. Wheat prices increased from 49¢/bushel in 1894 to 99¢/bushel in 1914. New discoveries of gold in Alaska lowered the price of gold and increased the money supply. The nation had recovered from the depression of 1893 and farmers could once again get agricultural loans. The international market for American farm output absorbed about one quarter of the production, thus decreasing some of the oversupply problems.

THE FARM PROBLEM

Farmers in the 1880s and 1890s were in the unfortunate position of being hurt by national forces which they had little power to change. When Frank O'Hara's father moved from Ohio to Kansas, the frontier was wide open as families swarmed into the Great Plains. By the 1890s the area was overpopulated with no new western frontiers in which to seek refuge. So many people had entered wheat farming that production jumped from 170 million bushels in 1866 to 542 million bushels in 1894. The supply in the 1890s far exceeded the demand for most food products. Farm output increased more than 3% a year from 1869 to 1899, outpacing population growth in the United States.

Frank O'Hara was not alone in his struggle. By 1895 there were 15 counties in Kansas where 75-90% of the land was owned by loan companies and banks rather than the original farmers. 11,122 farm mortgages were foreclosed between 1889 and 1893; the lenders took possession of the farmers' property because the loans were not repaid. When farmers were unable to get loans based on their land, they took out loans on their machinery and livestock. But the cost was staggering; interest rates for such loans in the 1890s were 20-36%. With such heavy debts some families couldn't even leave the state after they lost their farm because their wagons and horses were owned by the loan companies.

ORGANIZED PROTEST

A national organization responded to the farmers' anger and frustration. The Granger movement was started by Olive Hudson Kelly, a farmer and clerk in the office of the U. S. Commissioner of Agriculture. Kelley founded the Grange in 1867 as a secret organization called the Patrons of Husbandry. He hoped that through a united effort the farmers could improve their economic position and backward social environment. The Grange was the first fraternal organization to admit women on an equal basis, a tribute to the important role of women in the work of farming. The Grange was strongest in the old Northwest, from Ohio to Minnesota. By 1874 there were 12,000 Granger lodges and 800,000 members.

Economic Cooperation: One of the goals of the Grange was to strengthen the farmer's position through cooperation. They tried to get rid of all of the "middlemen" who took money away from the farmer. They established their own member-owned stores, grain elevators, dairies, supply services of seed, fertilizer, oil, machinery and other things farmers needed. Many of these cooperatives failed due to poor management.

The first cooperatives pooled contributions from each member, bought supplies, and then offered merchandise at cost. But regular merchants often succeeded in driving this type of cooperative out of business. Merchants would offer lower prices, drawing away the cooperative's members and buyers. The cooperative store would fold, and then the merchants could raise their prices again. A more successful cooperative was based on the Rochedale system in England. In these cooperatives, the prices offered to members were the same as the competition's. At the end of the year, any money left over after all business expenses had been paid was distributed to the owner-members of the cooperative. Each member had one vote so the cooperative was democratically controlled.

One of the Grange's most successful efforts was the oil cooperative. Farmers needed petroleum products, oil, gasoline, and grease. The distribution

of oil was a simple operation requiring a small capital investment. The cooperative's prices were the same as the major oil companies, but at the end of the year, payments were made to the owner-members of the cooperative, resulting in a significant savings on this farm expense.

Political goals: The Grange and another organization more popular in the Plains states, the Farmers' Alliance, worked to get farmers assistance from state and federal governments. Their demands included:

government regulation of the railroads and grain elevators
government control of the monopolies
cheap money, free silver

Many farmers believed in an international bankers' conspiracy that kept the money supply tight while non-farm prices increased and farm prices declined. As debtors, farmers stood to gain from inflation caused by an expanded money supply. They could pay off their loans with money that was worth less. William Jennings Bryan of Platte, Nebraska ran for President of the United States in 1896 on a free silver platform. The free-silver advocates wanted paper money issued that would be backed by silver rather than restricting the money to the gold supply in the Treasury. Bryan's famous speech inspired many farmers -- "You shall not crucify mankind upon a cross of gold."

Social goals: The farmers' organizations brought isolated, lonely, uneducated farm people together for social and political events. Reading and public speaking were encouraged. The exchange of information about new farming techniques and new technology was a dramatic change for many who were unaware of the scientific breakthroughs that had occurred.

Accomplishments and successes: The "Granger laws" passed by some states to regulate railroads and elevators often failed. Many cooperatives went bankrupt due to poor management, inexperience, overextension of credit, and lack of member cooperation. Free silver died as an issue and Bryan lost the presidential race.

Farmers, nevertheless, learned a great deal from these efforts. They learned that the distribution function performed by "the middlemen" was a vital

part of the process of moving food from the fields to people's tables. That network of wholesalers, brokers, and retailers took the farmers' bulk shipments and processed and packaged them into the right sizes and shapes for the consumers. Such marketing functions could be taken over by farmer-owned marketing cooperatives, but the farmers had learned to respect the business expertise that made them work.

The farmers also influenced important national legislation to curb monopoly practices. They helped pass the Sherman Antitrust Act in 1890 and the Interstate Commerce Act in 1887, bringing railroads and grain elevators under public control. The farmers showed business and labor that they had clout by electing representatives to the legislature and passing laws favorable to agriculture.

The cooperatives were to continue as a method of self-help for the farmers. But their business expertise would be greater and their methods of organization improved due to the lessons learned in this era.

READING REVIEW: Questions to Answer

1. Why was Frank O'Hara's father able to get better prices for wheat in the 1870's than Frank could get in 1894?
2. Why did wheat prices rise in the 1900s?
3. State two facts that support the idea that there were many Kansas farmers worse off than Frank O'Hara.
4. What was the Granger movement?
5. What is a cooperative? Why did farmers join cooperatives?
6. Why did farmers want the federal government to expand the money supply?
7. List three accomplishments of the organized efforts of the Grange and the Farmer's Alliance.
8. Who are "the middlemen" who come between the farmer and the consumer? Why are they important?

OVERPRODUCTION

Write your answer to this problem situation on a separate piece of paper.

There are six possible solutions to the problem of overproduction:

1. increase consumer demand
2. decrease supply
3. provide price supports, subsidies, and controls that affect an entire industry (such as all citrus growers)
4. allow competition to eliminate the inefficient farmers
5. cut the costs of production
6. raise prices by inflating the money supply

YOUR RESPONSE:

A. Which of these solutions could be done by an individual farmer?

Which of these solutions could only be done by the federal government?

Which of these solutions could be done by a cooperative of farmers?

B. Given the situation in America in the 1890s in which supply of farm products far exceeded national and international demand, which solution(s) would farmers prefer? Which solutions would they reject? Why?

C. What happened in the 1900s that corrected the supply-demand imbalance?

SUNKIST GROWERS

The history of one of the most successful cooperatives in U. S. agriculture, Sunkist, begins with the story of two mid-westerners in ill health. In the 1880s Mr. Chamblin, a newspaper publisher from Galesburg, Illinois, moved to Riverside, California, and bought some orange groves while he was waiting for the California sun to improve his failing health. In 1884, with only six weeks to live according to his doctor, P. J. Dreher left Illinois for Claremont, California. These two men not only recuperated in southern California, they began new businesses as citrus growers and became leaders in organizing growers' cooperatives.

Lemon and orange growers in California struggled with nature's problems just like the Nebraska wheat farmers. California climate in the citrus areas has warm sunny days and cool nights. But nature also supplies frosts, high winds that damage the trees, pests, diseases, and drought.

Marketing Citrus Fruit

In the 1880s the most common marketing system used by growers was to work through a western buyer. The buyer would come out to the orchards and bargain with the growers. The buyer would arrange shipping to a distant city. A rail shipment took a month to get back east, and with the poor refrigeration facilities at the time, the oranges might arrive in very bad shape. The buyers had a poor distribution system in terms of supply and demand. Some cities in the East were oversupplied and others were totally forgotten and received no shipments at all. If the buyer and grower were paid "on arrival," the price was determined by the quality of the shipment when it finally reached its destination. If there were a glut of oranges or they were in poor condition on arrival, prices would be low. The buyer would still get his fee, but the grower would get whatever was left.

This put the growers in a very unfavorable bargaining position. Mr. Chamblin and Mr. Dreher had the same idea about the same time on how to solve this problem. In 1893, P. J. Dreher formed a cooperative, the Claremont California Fruit Growers Association. Working with the best growers in the area,

Dreher and his neighbors pooled their crops and shipped them directly to eastern brokers without dealing with the western buyers. Their goal was to build a reputation for quality oranges and they used the name "Indian Hill" to identify their fruit. The cooperative's shipment filled 21 railroad cars and brought the growers $1.32 a box when other growers were losing money. Mr. Chamblin did the same thing in the Riverside area, organizing the Pachappa Orange Growers Association. The growers shared the expenses of packing and marketing. Their success rested in the cooperative's combination of individualism and group effort. Oranges vary according to quality and are assigned different grades at the packing house. If one grower produces high quality fruit and is in the same cooperative as another grower who has poor quality fruit, there is going to be trouble. The sale of their pooled crops will bring the same money to both even though the quality varies. Chamblin had a solution:

> It was arranged that each member would receive his pro-rata share of the new proceeds according to the grades which he had provided. Each individual was compensated for the quality of his own fruit, thus preserving individual initiative. (Ainsworth, p. 27)

The Southern California Fruit Exchange

The cooperative idea was catching on among California growers. In 1893 at the Chamber of Commerce in Los Angeles, a new marketing cooperative was created, the Southern California Fruit Exchange (later known as Sunkist).

The Exchange was organized at local levels as well as larger areas called districts. The high hopes for its success crashed within a year. The inexperienced leaders knew very little about the complex operation of shipping perishable fruit to distant markets. What had worked on a small scale for Dreher and Chamblin was far more difficult when they were handling the crops of 80% of the orange growers in southern California. An additional barrier was created by the deliberate effort of jealous buyers and dealers who worked to destroy the cooperative. The established dealers would buy from independent growers and ship the oranges just ahead of the cooperative's shipment. A glut of oranges thus existed and the cooperative received much lower prices.

Several events occurred that once again brought hope to the remaining members of the cooperative. A new president, Charles Teague, came to office, and he brought better business methods and management skills with him. Two new groups joined the Exchange, one from Ventura County and the other from the San Joaquin Valley. There was also a plan for a new experiment underway -- an advertising blitz in Iowa.

The Iowa Invasion

The first advertising campaign was paid for by the Exchange and the Southern Pacific Railroad. Fruit was shipped in special railroad cars covered with banners. Billboards throughout the state posted slogans such as "Oranges for health -- California for wealth." The railroad was interested in more passengers making the trip to California. The Exchange growers wanted people to eat oranges every day, rather then view them as luxury items.

The risky and expensive campaign paid off. Sales in Iowa increased 50%! At this point the name "Sunkissed" and then "Sunkist" was selected so that the public could easily recognize the fruit of the Exchange. To promote the new Sunkist trademark, consumers were offered a sharp-pointed spoon to aid in eating oranges out of the shell. Orders containing "Twelve wrappers and 12¢" came from thousands of people in reponse to the campaign.

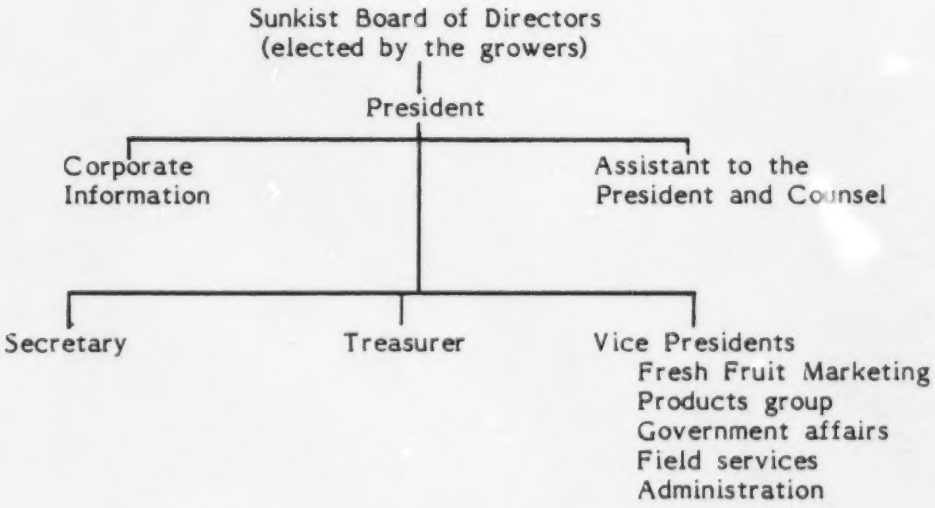
In 1907 the Exchange established the Fruit Growers Supply Company to solve another problem faced by the growers. The San Francisco earthquake of 1906 resulted in a heavy demand for lumber to rebuild the city. Growers were desperate for boxes, and those available had skyrocketed from 12¢ a box to 21¢ a box. The Supply Company bought timber land and a lumber mill to supply growers. In later years they also supplied nails, cardboard cartons, polyethylene bags, irrigation pipe, and orchard thermometers.

By 1915 refrigeration techniques had been improved and opened a whole new market for frozen juices. Also about this time the market for citrus by-products developed: citric acid, lemon oil, pectin, orange marmalade, even cattle feed made from low-quality fruit, peel, and seeds.

Sunkist Growers, Inc.

Today Sunkist is a marketing cooperative for 6000 citrus growers in Arizona and California. 1981-82 sales in fresh fruits -- navel and valencia oranges, lemons, grapefruits, tangerines -- totalled $532 million. Sales from by-products were $151 million. Payments to the members of this cooperative increased 9% in 1982.

Organization



Sunkist Growers, Inc., includes the member growers, local associations, district exchanges, and the Fruit Growers Supply Company. Each grower is a member of a local exchange in his or her area. Local exchanges usually provided fruit packing services, picking crews, and such services as fumigating, pruning, and spraying the orchards. Each of the local associations belongs to one of the 20 district exchanges, which in turn nominate the members of the Sunkist Board of Directors. Each district exchange is given the right to nominate one director. Those exchanges with the heaviest volume of fruit shipments, are allowed to nominate additional directors. The number of directors set in the corporation's bylaws is a maximum of 31.

This citrus cooperative has grown from a small, risky enterprise to a sophisticated marketing organization with district sales offices across the

nation, a research branch, extensive information networks on crop analysis and market and consumer data. International sales have reached almost $200 million a year.

Citrus growers have not solved all of their problems with this marketing cooperative. Here's a list of 1981's crises from the Sunkist Annual Report to its members:

oversupply of navel oranges of very small size
world surplus of orange juice
largest lemon crop in history, but plagued by decay
strong U. S. dollar makes foreign buyers turn to fruit from South Africa and Mediterranean
Medfly invasion, fruit quarantine
dock workers refuse to handle fumigated fruit for overseas shipment
federal marketing order attacked as a form of price fixing by officials in Reagan administration

Federal Marketing Orders

Since the Great Depression of the 1930s the federal government has played an important role in agriculture. Farmers have a long production cycle. Their planning decisions and operations are completed far in advance of the crop harvest. If there is an oversupply when the crop is ready to sell, the farmer can let the crop rot in the fields, store it (if it is not perishable), or sell it at the going price. Oversupply or shortages are due to a number of factors beyond a farmer's control, such as the international situation, interest rates, and the vagaries of nature.

Federal marketing orders have been in effect since 1937 for growers of lemons, oranges, cherries, almonds, walnuts, filberts, raisins, prunes, hops, and spearmint. Committees of growers, with the approval of the U. S. Department of Agriculture, establish some basic supply and marketing rules. The orders apply to all growers, members of cooperatives as well as to independents. The intent of the orders is to improve the supply and demand balance for both the growers and the consumers. The crops can be sold as fresh products, used for export, food processing, or placed in a reserve pool to be used at a time when there is an undersupply.

The Reagan administration did not abandon this system of marketing orders. With several modifications the system remains in place as one method to lessen the problems of "boom or bust" -- big crop years and bad crop years -- for farmers.

Discussion Questions

1. What were the problems with the marketing system used by the orange growers in the 1880s?
2. What solutions did Mr. Chamblin and Mr. Dreher find to this marketing problem?
3. Was Sunkist's experiment with national advertising a success?
4. How is Sunkist organized today?
5. Sunkist is a marketing cooperative. What does that mean?
6. What problems were faced by the citrus industry in 1981?
7. What are federal marketing orders?

COOPERATIVES AND THE LAW

A cooperative is a business organization owned by its members and operated to serve their interests. Each member has one vote, although in some cooperatives additional votes are permitted based on previous years' volume of business with the cooperative. Cooperatives are nonprofit organizations. They operate "at cost" rather than to profit the cooperative. Any savings -- revenue in excess of the costs of doing business -- belongs to the members. This revenue is returned to the members in the form of patronage refunds. Since the cooperative has no corporate income, it can not be taxed. The members pay taxes on their patronage refunds as part of their personal taxes.

How does the cooperative differ from other types of business organization? Table 1 shows four methods of doing business: individual business, partnership, investor-oriented corporation, and a cooperative corporation.

Individual business: The owner operator makes the decisions and assumes the risks. He or she is a laborer, accountant, manager, and investor. The goal is to make a profit so that the owner can pay living expenses, expand the farm, or invest profits in non-farm business. As we have seen in our case studies, the major risks of this type of business are (1) limited capital, and (2) losses are borne by the owner.

Partnership: Two or more people own the business and share its profits or losses. They may be members of the same family such as a husband and wife or a parent and child. They may be unrelated individuals, each bringing special skills or resources to the business. If one of the partners dies or leaves the business, the partnership is dissolved.

Investor-oriented corporation: This is a state-chartered business which must abide by the laws of the state. It can accumulate a greater amount of capital by selling stock to investors. Investors want the business to grow, thus making their stock more valuable, and giving them a return on their investment. Large corporate farms tend to be most common in cattle, poultry, or hog operations. There are few large scale field operations. It is estimated that one tenth of all farm products come from this type of business.

Cooperative corporation: A cooperative is a state-chartered business, but it exists to provide services and economic benefits to its members, not to stockholders. Members contribute a portion of the capital funds when the cooperative is formed and as it grows. Federal law requires cooperatives to limit returns on membership capital to 8% per year. This law exists to discourage exploitation of cooperatives by investors, and encourage the cooperatives' primary focus: greater savings for members. In cooperative corporations members are protected by limited liability in contrast to the unlimited liability of individual owners and partnerships.

Most American farms are not owned as cooperative corporations. The case study which follows, Cooperativa Socios Unidos, is an example of a producer cooperative started by Mexican-American farmworkers.

Most farms are owned individually or in partnership. Orange growers own their own orchards, but participate in a marketing cooperative such as Sunkist. Dairy farmers own their own farms but may join a cooperative such as Agri-Mark, a manufacturing and marketing co-op. A supply cooperative provides farmers with diesel fuel, seed, fertilizer, and pesticides. A farmer may belong to five or six co-ops -- a credit union, supply, marketing, manufacturing, banking, and food store co-ops. There are more than 5000 cooperatives that market U. S. farm products.

Antitrust Law

Cooperatives have become big business, but they must operate under the same antitrust laws as other business organizations. Special laws have been passed to encourage farmers to form cooperatives to market their products. The Capper-Volstead Act of 1922 was designed to strengthen the farmers' position in the marketplace. This act authorizes farmers to engage in the collective processing and marketing of products through a member-controlled cooperative. The cooperative must be operated for the benefit of its members, and it can not handle a greater amount of products from non-members than it does from members. The Capper-Volstead Act establishes a procedure for the Secretary

of Agriculture to intervene when there is reason to believe that a cooperative has monopolized or restrained trade and raised prices.

One of the natural checks on monopolies in agricultural products is the food substitute. If banana prices are too high, the consumer will buy another kind of fruit. If beef prices are very high, consumers may turn to poultry, seafood, or pork. In a sense, all food products compete with each other.

READING REVIEW

1. Define cooperative.
2. How is a cooperative different from an investor-oriented corporation?
3. List five different types of cooperatives.
4. What is the Capper-Volstead Act?

BIG BUSINESS COOPERATIVE

Write your answer on a separate paper.

HYPOTHETICAL PROBLEM: In the 1980s 90% of the citrus growers in California, Arizona, Texas, and Florida united into a giant cooperative, Mega-Fruit. Mega-Fruit provided the growers with supplies, domestic and international markets for their fruit, transportation facilities, research, and development. Mega-Fruit recently added three factories to its holdings. These were processing plants for making such consumer products as orange soft drinks, fruit rolls, and snack bars. The members of the big cooperative now control production, distribution, processing, and marketing functions in the U. S. market.

Consumer groups are protesting that Mega-Fruit can now fix prices and control supply. They argue that without competition, the cooperative will offer poor quality and high prices. Newspaper editorials and television commentaries demand immediate government action.

YOUR RESPONSE:

What is the issue presented in this problem?

Are there both positive and negative consequences to the formation of a national citrus cooperative? Explain.

Does this cooperative have an unfair monopoly?

Should action be taken against Mega-Fruit? By whom — consumers, government, or business? What action?

COOPERATIVA SOCIOS UNIDOS

California has several cooperatives that have been started by low-income workers. The most successful is Cooperativa Socios Unidos of Salinas. It began in 1976 with 12 members who used to be small farmers or who picked crops for growers in the area. Each farm worker paid a membership fee of $2300 and contributed 1000 hours of labor. Each member thus owned one-twelfth of the 83-acre vegetable and strawberry fields. The 1980 operations were profitable and the cooperative bought 64 additional acres.

Some of the members of this cooperative had previously been part of another cooperative that is no longer in operation. The Cooperative Central in Salinas was organized by farm workers in 1972, with an interest-free loan from the Office of Economic Opportunity, a federal agency assisting minority groups. Other loans were provided by Bank of America and Wells Fargo Bank. But after several successful years, Central began to lose money. Strawberry production in Salinas was losing out to the competition from fields closer to the coast. Central plans to sell its land in the Salinas Valley and move closer to the coast, as have most strawberry growers in California.

Most of these small producer-cooperatives have been formed by farmworkers of Mexican descent. They hope to improve their income over that earned as hired farm laborers. With little money to use as working capital, and little experience in business management, there are many failures. The cooperatives must deal effectively with financial institutions, with the complex supply and marketing systems, and with each other to resolve conflicts among the members. A lack of fluency in English and little formal education make some of these problems even more difficult.

In a study of ten low-income coastal cooperatives, Professor Refugio Rochin found that a critical key to success for these cooperatives was a high degree of social cohesion. Members had to work toward common goals, help each other, and believe in their effort. The social bonds among the families often kept the cooperative together during years when little income was produced for members. Another ingredient for success was the technical assistance of an outside group -- a private bank, a government agency or an organization such as Confederacion Agricola. The Confederacion offers

cooperatives expert help in farm management and financing. The cooperatives support this self-help organization by paying dues and fees for services.

These California production cooperatives are created by highly-motivated individuals who hope that their group effort will be stronger than individual efforts. If they should succeed, more farmworkers could become owner-operators of their own farms.

VOCABULARY WORKSHEET

COOPERATIVES	THE GRANGE	MARKETING ORDERS
DISTRIBUTION	MONOPOLY	PROCESSING
MARKETING	CITRUS	STOCKHOLDERS

Place the correct word next to its definition.

_____ 1. The economic function of moving goods from producers to consumers

_____ 2. The economic function of transforming raw materials into consumer products

_____ 3. Any of a group of related trees, including orange, lemon, grapefruit

_____ 4. Federal government regulations for farm production

_____ 5. Exclusive control by a business that makes it possible to control prices

_____ 6. Owners in an investor-oriented corporation

_____ 7. National organization of farmers which no longer exists

_____ 8. Business organizations owned by their members and operated to serve their interests

_____ 9. All business activities related to the buying and selling of goods

A. Explain the purpose of a business cooperative and how it works.

B. What factors cause business cooperatives to succeed or fail?